

Multifamily Metro Outlook:

Phoenix - Q3 2024

Overview:

- While Phoenix's high-tech industries and financial sectors have pulled back since experiencing the negative impact from rising interest rates, job growth is on the upswing again, according to Moody's Analytics. In fact, Phoenix is expected to have one of the highest rates of job growth in the nation and is projected to add almost 95,000 jobs in 2025 and 2026.
- Nevertheless, multifamily fundamentals continue to weaken in Phoenix, largely due to a prolonged surge in deliveries. As a result, the average vacancy rate of 7.5% in Q3 2024 is now 3 percentage points above the pre-pandemic level in Q1 2020. A third of units are offering concessions that average three weeks of free rent. Still more supply is underway, likely leading to additional softening in the multifamily market and falling rents in 2024.

Market Strengths:

- While 13.6% of jobs remain in the housing sector, above the 9.9% national average, the economy has diversified over the past 20 years. About 8.8% of jobs are in finance, compared to 5.9% nationwide, and 16.2% of jobs are in the well-paying professional services sector, compared to about 14.6% nationwide.
- Phoenix has the third-highest rate of in-migration among metro areas with at least 1 million residents. Moody's expects net migration to pick back up in 2024, with 58,000 expected newcomers, compared with 38,000 residents added in 2023, providing continued strong demand for all types of housing. In addition, the primary renting cohort, ages 20-34, makes up about 21% of the population. This cohort is expected to grow faster than the national average over the next five years, aided by enrollment of over 140,000 students at Arizona State University and Grand Canyon University.
- Many migrate to the metro for jobs in the well-paying high-tech sector, dubbed the Silicon Desert. It now accounts for about 5.6% of employment, 0.1% above the national average. The high-tech manufacturing core includes major employers Intel and Honeywell Aerospace. Intel is in the middle of a \$20 billion expansion at its Chandler campus, with plans to hire more than 3,000 workers by the end of 2024. In April 2024, the U.S. Department of Commerce and Taiwan Semiconductor Arizona announced up to \$6.6 billion in direct funding under the CHIPS and Science Act for additional investment in semiconductor fabrication facilities. In addition, Microsoft, Google, and Apple have invested in data centers throughout the metro due to affordable energy prices.

Market Weaknesses:

- Water shortages and climate change remain a problem, with 2023 recording one of the driest years on record. According to the City of Phoenix's water services website, Colorado River water, which includes water from Lake Meade, supplies roughly 40% of the City's water. Phoenix does have water conservation measures, such as recycling nearly all its wastewater, which it uses in agriculture and energy production. It remains to be seen whether such measures will be sufficient.
- Investors have built to rent thousands of single-family homes in the West and East valleys and rehabbed less expensive single-family homes into rentals. This has influenced the inventory of single-family homes for sale, which remains low. Some would-be homeowners may leave the area to find markets with more affordable homes for purchase.
- While rent growth has declined by almost 4 percentage points since Q4 2022, affordability has deteriorated.

Multifamily Development:

- The pace of development remains strong with an estimated 28,900 units underway as of Q3 2024, representing a 7.0% increase in inventory. While about 15% of units underway are in Central Phoenix, development currently appears to be spread out around the metro. However, most of the new supply underway consists of expensive Class A units. Only an estimated 5.1% of units involve subsidies to build new affordable units.
- A 2023 law requires that developers seeking to build new construction will have to demonstrate they can provide an "assured water supply" for 100 years using water from a source that is not local groundwater. This mainly affects new developments on the edges of Phoenix.

Multifamily Outlook:

- Based on expected job growth, Phoenix will likely find demand for 19,000 new units over the next two years, falling far short of the 28,900 units underway. This will likely further soften the multifamily market.

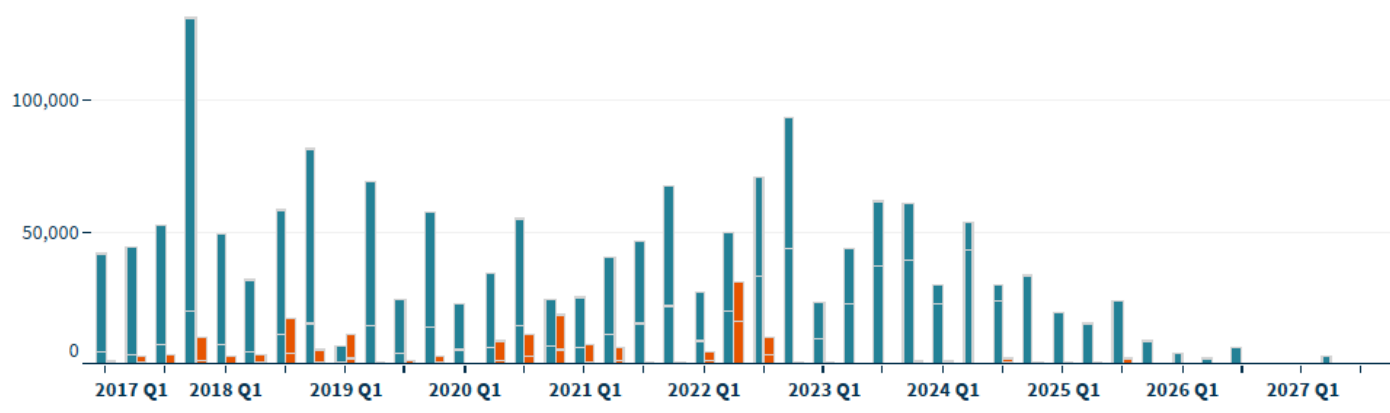
Economic Outlook:

- In the long term, Phoenix is likely to remain one of the stronger economies in the country due to a pro-business environment and low living costs relative to other West Coast metros. This and the potential amount of available land should continue to attract both employers and population. Even so, Phoenix will continue to have high cyclicity due to the economy's dependence on investment and population inflows. In addition, the long-term impact of climate change and water shortages remains unclear.

Multifamily Apartment Pipeline

Apartments & Condos/Townhomes: Units Completed and Underway

Apartments | Condos



Source: Dodge Data & Analytics SupplyTrack Pipeline

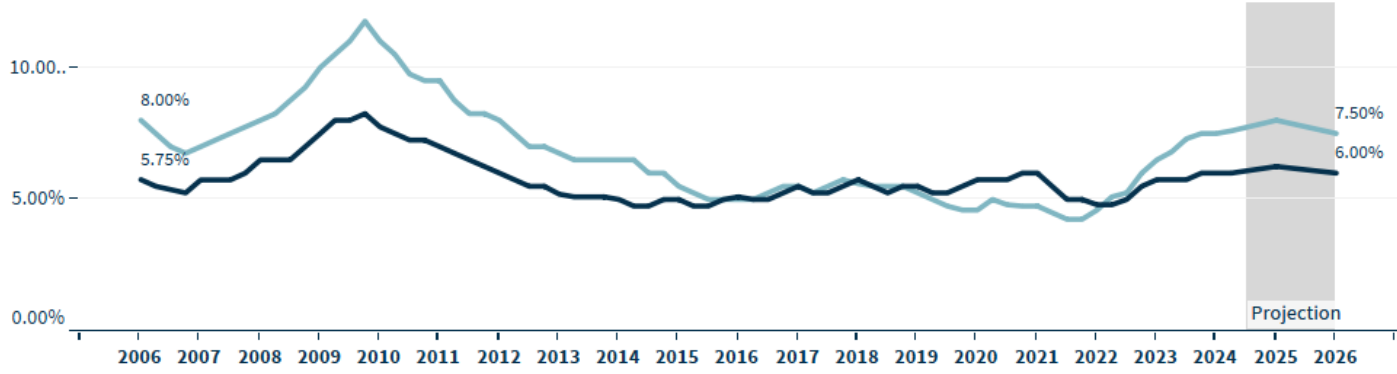
Multifamily Vacancy & Rent Estimates

Vacancy Rates

Phoenix | National

Q3 2024 Vacancy Rate:

7.50%

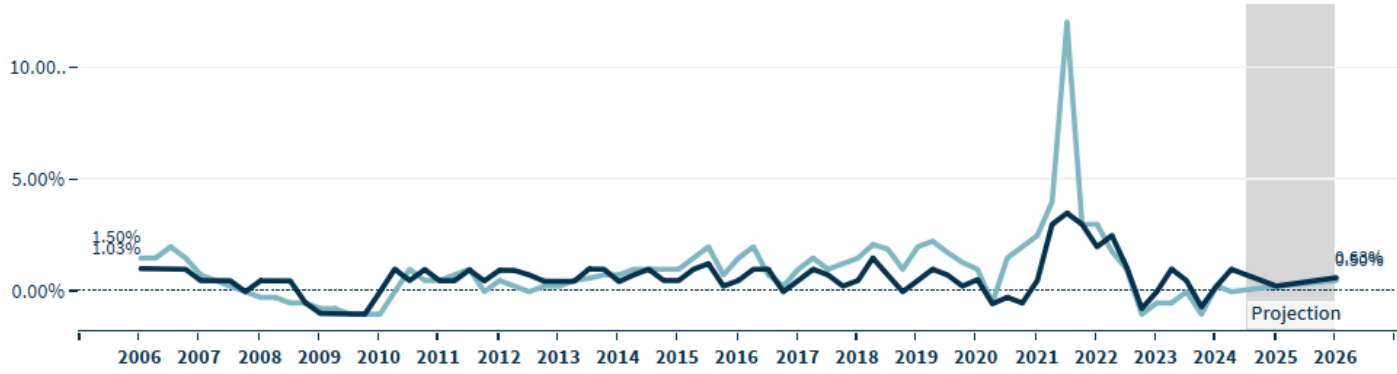


Asking Rent Growth

Phoenix | National

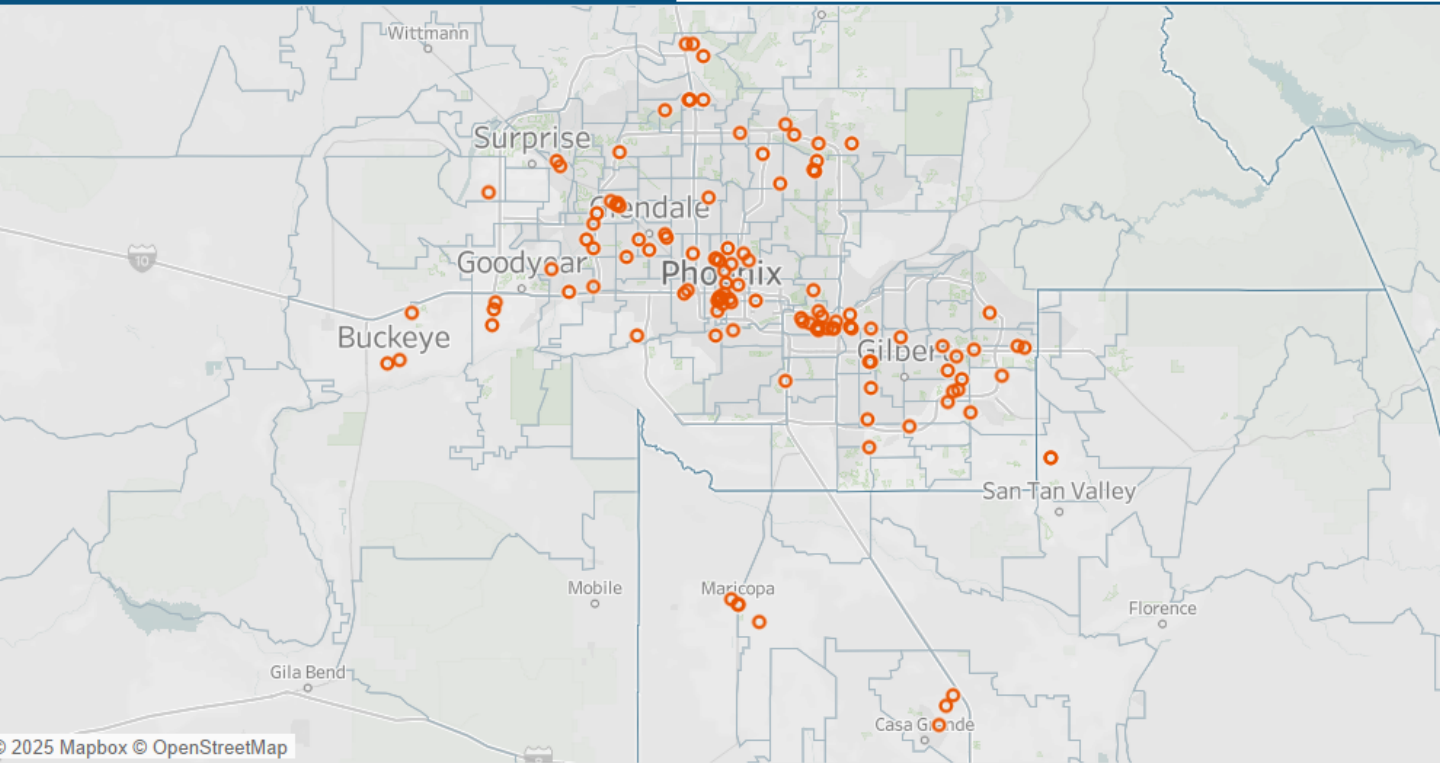
Q3 2024 Asking Rent:

\$1,540



Source: Fannie Mae Multifamily Economics and Research

Multifamily Construction: Bidding & Underway



<i>MultiHousingSubmarketName</i>	<i>Apartments</i>	<i>Units</i>
Avondale/Goodyear/West Glendale	12	3,980
Central Phoenix	12	3,107
Chandler	3	786
Deer Valley	9	2,396
East Mesa	10	2,711
East Phoenix	1	66
Far West Phoenix	2	276
Gilbert	8	2,519
North Central Phoenix	8	1,082
North Glendale	2	5
North Scottsdale	6	1,999
North Tempe/University	12	3,617
Northeast Phoenix	2	605
Northwest Mesa	4	1,050
Northwest Phoenix	1	88
Peoria/Sun City/ Surprise	8	1,129
Pinal County	7	1,449
South Glendale	4	933
South Phoenix	3	325
South Scottsdale	1	266
Southwest Mesa	1	72
West Phoenix	3	477
Grand Total	119	28,938

Source: Dodge Data & Analytics SupplyTrack Pipeline

Multifamily Metro Outlook: Baltimore Q3 2024

Multifamily Economics and Market Research Team

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Sources Used

- Moody's Economy.com
- Moody's CRE/REIS
- CoStar
- Real Capital Analytics
- RealPage
- Greenstreet
- Dodge Data and Analytics SupplyTrack Pipeline
- CBRE-Econometric Advisors
- Yardi

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